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C O N F I D E N T I A L SECTION 01 OF 03 BUDAPEST 000492

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SUBJECT: NABUCCO: PARTNER NATIONS LOSING PATIENCE WITH ONE  
ANOTHER

REF: BUDAPEST 00409

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D).

11. (C) SUMMARY: A gathering of Nabucco Consortium member countries, together with potential supplier states Azerbaijan and Iraq, at an Ambassador-hosted luncheon on May 9, revealed continuing concern on old themes: the ability of Caspian nations to supply gas; Turkey's intentions, whether transit or brokerage; and perceived EU inaction in shoring up a common energy security policy. Hungary's Nabucco Ambassador Mihaly Bayer -- fresh from his U.S. tour -- followed a measured approach, noting Nabucco's remaining challenges but also laying out his ambitious travel schedule and intention to coordinate a Nabucco intergovernmental agreement (IGA). Austrian Ambassador Ferdinand Mayrhofer-Grunbuhel and MOL CEO Zsolt Hernadi traded thinly-veiled jabs on the current and future leadership of the Nabucco Consortium, with both also treading carefully to show equal commitment to Gazprom. Despite Hungarian oil and gas company MOL's stated desire to lead the Nabucco Consortium, the CEO had little encouraging to say about the project, prompting the Romanian Ambassador to ask, "but what are the good points?" The strategic benefits may be too distant for decision-makers focused on short-term economic advantage and short-term political survival. END SUMMARY.

AZERBAIJAN "WILL NOT WAIT FOR NABUCCO"

12. (C) In a performance worthy of the Grand Bazaar, Azeri Ambassador Hasan Aziz Hasanov warned Nabucco countries that they "should be in a hurry" to enter supply negotiations. "We are going to sign new contracts, and we will not wait for Nabucco." To break Russia's double monopoly -- buying from Central Asia and selling to Europe -- Hasanov implored EU countries to engage potential suppliers as a group and to do so at a high level. (Note: This urging aside, Hasanov demurred to acknowledge an oral commitment to sell 1 bcma to Bulgaria.) "You should gather all the countries and ask how much they will commit. Putin visited Central Asia and sat personally with Presidents to ask for gas. Who visits from Europe?" MOL CEO Hernadi sounded a doubtful note in response: "Azerbaijan's promise of 8 bcm is only theoretical. The gas is not currently available."

13. (C) Turning to other potential Nabucco suppliers, Iraqi Charge d'Affaires Amel Al-Shemmari reported on Iraq's projected extractions (70 bcma) and export capacity (29 bcma)

over the next 5-10 years, including a 10 bcm pipeline to Turkey, with expected completion in 2009. Al-Shemmari acknowledged security and gas field development as challenges to Iraq's gas export aspirations. Bayer reminded the group "that at least some of the gas" for Nabucco "might come from Russia, since 50 percent of the capacity will be open to third party access" and noted, too, OMV's earlier interest in getting Iranian gas into the pipeline.

#### TALKING TURKEY ON TRANSIT

¶4. (C) Hasanov's assertion that "the transit issue with Turkey must be solved" brought a tepid response from the newly-arrived Turkish Ambassador to Hungary Oya Tuzcuoglu, who stated that the focus in the coming months should be on the supply side -- "the EU can and should elaborate a road map." Expressing waning patience with Turkey, Mayrhofer-Grunbuhel and Bayer both reported having "heard voices that say they will pursue alternates if the road with Turkey gets too hard."

#### EU DISINTEREST IN A NABUCCO IGA?

¶5. (C) In response to Bayer's stated priority of concluding a Nabucco IGA, Turkey, Romania and Bulgaria reported that they were circulating Hungary's draft within their governments and would respond as soon as possible. According to Bayer, Austria has already responded. Clarifying various IGA drafts, Bayer explained that companies circulated a first draft and that a second draft -- initiated by the GOH -- takes into accounts governments' legal obligations. Bayer also expressed frustration with EU Southern Corridor Coordinator Jozias van Aartsen, who, he said, had not followed up on a previous commitment to organize a June meeting to hammer out final details of a Nabucco IGA. In addition, Bayer had been unable to secure a single meeting with van Aartsen since assuming his Nabucco duties, leading other participants to express general dissatisfaction with van Aartsen's dual hatting as an EU official and Mayor of The Hague.

#### MOL NOT PRIORITIZING NABUCCO

¶6. (C) When asked to present a corporate update on Nabucco, Hernadi addressed in detail MOL's current pet projects -- both having to do with regional pipeline interconnectors -- before briefly touching on the need for EU financing for Nabucco. Reporting on an agreement to build a 10 bcm connector between Croatia and Hungary, Hernadi assured the other guests, "I can speak for Croatia." And referring to the New European Transmission System (NETS), which held its first meeting in Bucharest in mid-March, Hernadi said the project "helps the Nabucco philosophy." Karoly Banai, Foreign Affairs Adviser to the Prime Minister, later added that "NETS could substitute to a certain extent for Nabucco infrastructure." (Comment: Given Hernadi's description of the interconnectors in ref, NETS could be used to Gazprom's advantage rather than to bolster diversification. According to recent press reports, MOL is working jointly with Gazprom on a South Stream feasibility study and has secured a South Stream-linked storage contract from the Russian firm. End Comment.)

¶7. (C) Finally turning to Nabucco, Hernadi said he had spoken with two European Parliamentarians, who are willing to submit a proposal to the EU to commit financial resources to the Nabucco project in the form of loan guarantees.

#### NEIGHBORS CALL HUNGARY'S APPROACH "INDECENT"

¶8. (C) Barely harnessing her contempt, Romanian Ambassador Irina Comaroschi muttered in a sideline that she found Hungary's approach -- both Hernadi minimizing the project and the GOH blaming the EU for hurdles -- "indecent." The Dutch Charge told us subsequently that "blaming the EU is the easy way out." Similarly, Mayrhofer-Grunbuhel dismissed MOL's current efforts to seize control of the Consortium, saying, "it is my understanding that OMV is the head of the Nabucco

Consortium, and we are the only ones with infrastructure to distribute the gas if the pipeline is built." His disdain was not reserved for MOL alone. Shaming the GOH, the Austrian Ambassador told his counterparts that when he attended the MFA's February 29 briefing on South Stream, he "heard to my amazement that Austria had signed an agreement on South Stream. This is not true. We did not sign out of consideration for Nabucco." However, Mayrhofer-Grunbuhel followed quickly by noting Austria's interest in South Stream -- "because we need all modalities possible" -- and asserted that the Gazprom-backed project could co-exist with Nabucco. Similarly, he characterized the sale of half of Baumgarten's shares to Gazprom -- although "Gazprom owns no infrastructure" -- as a move to ease concerns that Austria was sidestepping Russia in favor of Nabucco.

19. (C) COMMENT: While we applaud Bayer's seemingly sincere efforts to catalyze the Nabucco process, he lacks the authority to set policy. The motives of others in the GOH and MOL, meanwhile, continue to give us pause. With the full extent of MOL's involvement in the South Stream project still unknown, we think it unlikely that MOL would do anything to damage its chances to cash in on the Gazprom-backed pipeline. And recent indications -- that MOL intends to use its interconnectors to ship, and its storage facilities to store, Gazprom gas -- suggest that MOL perceives its fortunes to lie far from Nabucco. Meanwhile, the Prime Minister appears entirely preoccupied with domestic politics and the challenge of minority government. (According to our Czech counterparts, the PM discussed only domestic politics, no foreign policy, in a one-hour meeting with President Vaclav Klaus last week.) He will likely pursue short-term stability -- which he equates with Russian energy -- even if it runs counter to long-term security. END COMMENT.  
Foley